



Energy Overcharge of \$5.5 Billion Alleged

Generators engaged in manipulation, ISO says

Wholesale electricity suppliers overcharged California by about \$5.5 billion between May and last month, and that money should be refunded to the state's taxpayers and financially strapped utilities, the state power grid operator said Wednesday.

Generators engaged in market manipulation and consistent patterns of bidding far above costs in the deregulated energy market, the California Independent System Operator found in a study of pricing data. The findings support the widespread belief that these suppliers reaped massive additional revenue by manipulating the market.

Spokesmen for the companies denied the accusation.

The study, prepared for a filing with federal regulators today, is central to Cal-ISO's efforts to seek reimbursement for what it considers excessive charges by electricity suppliers during the state's energy crisis.

Cal-ISO found that five companies that together supply about 30 percent of the power delivered to customers of the state's investor-owned utilities:

- Effectively withheld supplies by bidding at excessive prices, even though they could have made some money selling more electricity.
- Less frequently, had power generation available but did not bid at all.

The study concluded that energy suppliers commonly offered their electricity at twice their cost.

Feinstein: public will be angered if Bush doesn't act

Sen. Dianne Feinstein, D-Calif., warned yesterday that when blackouts intensify in California this summer, the pressure will intensify on the Bush administration to explain why it rejected price controls on wholesale electricity.

"If by this summer California is, as anticipated, facing these blackouts, and the federal government won't help, I don't think the American people are going to be very pleased," Feinstein told California reporters.

Asked if help means the cost-based price controls Feinstein is pushing, she said, "Right now, yes."

MESSAGE POINTS

- With utilities on the brink of bankruptcy, the state stepped in to keep power flowing to California homes and businesses. For the past three months, our action kept rolling blackouts from becoming a daily occurrence.
- This week's blackouts were stark evidence of what we learned in last week's Assembly hearings: California and the entire Western grid remain vulnerable to sudden disruption.
- This underscores the need to complete the work that we have begun:
 1. Pass measures to promote conservation.
 2. Complete negotiations with small power suppliers (QFs) to get them back on line.
 3. Demand that federal officials do their part to help solve the crisis in California and the West.
- The blackouts that occurred yesterday put the health, safety and livelihood of Californians at risk. We remain dedicated to restoring reliability to the state's power system.

Mexico's leader promises to export more electricity

Mexican President Vicente Fox promised during his trip to the Capitol to send more electricity to California when increased production comes online later this year.

"Mexico will continue making efforts to support California's electricity needs," Fox said late Wednesday afternoon in a speech to a joint session of the state Legislature. Although Fox pledged to offer Mexican power surpluses, he said it is not a "magic solution" to the problem.

He added that his country currently sells California 250 megawatts a day, which is enough electricity to power 250,000 homes. The state's demand hovers near 30,000 megawatts in the winter and more than 45,000 megawatts in the summer.

Mexico could increase its electricity shipments by as much as 450 megawatts in coming months, when a new plant comes online in Baja California, and perhaps even more in coming years, said Michael Flores, the governor's secretary of foreign affairs.

Lab tests simple switch to reduce blackouts

Scientists tinkering with electric switches at Lawrence Livermore National Laboratory may have found a way to prevent blackouts across California.

Researchers at the lab in the past week have successfully tested a simple electric switching device that could be placed on thousands of power poles around the state, shutting off partial power to homes and businesses during Stage 3 alerts in hot summer months, while keeping some lights on.

The switches would be tripped by utility companies using a radio signal.

They would shut off only the 240-volt power to most buildings, while leaving a 120-volt line live. For affected homes, that would shut down air conditioners, electric stoves and water heaters for a few hours. It would leave on lights, computers, microwave ovens and most other household appliances, while reducing demand enough to avert blackouts.

The invention is the brainchild of KGO radio talk show host Bill Wattenburg, a nuclear physicist and former professor of electrical engineering at the University of California-Berkeley, who also has worked as a consultant at Livermore for 30 years.

Several weeks, if not months, of tests remain before the device is considered feasible.

But already, the state's major utilities and some of its top energy planners say if successful, the switches could go a long way toward reducing blackouts over the next two years while more power plants are built.

Small Producers To Shut Plants If Rates Capped

Many of California's independent power producers late Wednesday threatened to take their small power plants offline this week if state lawmakers pass legislation that would cap the rates the generators charge for electricity they sell directly to the state's three investor-owned utilities.

At issue is a bill that would repeal a section of the state's Public Utilities Code, which links the 688 so-called qualifying facilities' electricity rates to the monthly border price of natural gas.

Lawmakers, however, are poised to pass the legislation.

State regulators are then expected to approve a measure that would restructure the fluctuating rates the QFs charge the IOUs from \$170 a megawatt-hour to \$69-\$79/MWh, regardless of the price of natural gas.

The cogeneration facilities, which produce about 5,400 megawatts of electricity in the state, said the rates are too low and they won't sign new supply contracts with the utilities.

Other gas-fired QFs said the state could face another round of rolling blackouts if lawmakers and state regulators pass the legislation, which is expected to be heard on the Senate floor Thursday, and allow it to be implemented by Public Utilities Commission next week.

David Fogarty, spokesman for Western States Petroleum Association, whose members supply California with more than 2,000 MW, said the utilities need to pay the QFs more than \$1 billion for electricity that was already produced.

Several small power plant owners owed money by SoCal Ed have threatened to drag the utility into involuntary

bankruptcy if the utility continues to default on payments and fails to agree to supply contracts at higher rates.

The defaults have left many of the renewable and gas-fired QFs unable to operate because they can't afford to pay for the natural gas to run their units. Others continue to produce electricity under their contracts but aren't being paid even on a forward basis.

The ISO said the loss of the QF generation was the primary reason rolling blackouts swept through the state.

Gov. Gray Davis, recognizing the potential disaster if additional QFs took their units offline, held marathon meetings with key lawmakers Monday and Tuesday to try and hammer out an agreement that would get the QFs paid on a forward basis and set rates of \$79/MWh and \$69/MWh for five and 10 year contracts. He also said he would direct the PUC to order the utilities to pay the QFs for power they sell going forward.

"After next week the QF problem will be behind us," Davis said Tuesday. "The QFs are dropping like flies...and when that happens the lights go out."

Wholesaler must sell power, judge rules

A federal judge issued a preliminary injunction Wednesday ordering a major electricity wholesaler to continue selling to California despite its fear that it will not get paid. U.S. District Judge Frank C. Damrell Jr. said Californians were at risk of irreparable harm if Reliant Energy Services stopped selling power to the Independent System Operator, which buys last-minute power on behalf of utilities to fill gaps in supply to try to fend off blackouts.

Blocking increased supply while increasing demand

San Jose, while trying to block construction of a new power plant, is set to approve a vast computer complex that could overwhelm California's already strained power grid. City officials gave preliminary approval last week to what would be the world's largest "server farm." The sprawling facility to handle Internet traffic would drain about 150 megawatts of power from the state electricity grid.

Valley farmers seek answers

"How long will my packing plant be shut down this summer?" asked Cliff Sadoian of Sadoian Brothers in Dinuba. "We can find ways to work around it, but how long and how often? That's what we want to know."

After the sudden statewide power outage Monday in balmy 80-degree weather, farm officials are worried at the thought of 100-degree weather. Jim Carter, PG&E's supervisor of account services in this area, said answers will be clearer in the next few months.

The state could experience only 24 hours of rolling blackouts or up to 180 hours, he said. He could not speculate yet on when or how long they would happen.

"For me, the price of the electricity is not as big a concern as the supply," said Randy Ataide.

Advance warning of a blackout would help, said Raul Flores, chief engineer of the Giumarra Companies.

"Sometimes, we're required to use hazardous materials," Flores said. "How do we find out when the power will go out and plan when we handle this material?"